



CITY OF MATTHEWS, MISSOURI

YEAR ENDED DECEMBER 31, 1998

**From The Office Of State Auditor
Claire McCaskill**

Report No. 99-113
November 23, 1999

AUDIT REPORT



Office Of The
State Auditor Of Missouri
Claire McCaskill

Some problems were discovered as a result of an audit conducted by our office in response to the request of petitioners from the City of Matthews, Missouri.

NOTE: Recommendations, as well as responses from the city, which correspond with the findings below are included in the audit.

During 1998, the Board of Aldermen became aware of serious financial problems facing the city. Instances were noted where a vendor had turned the city's account over to a collection agency to obtain payment and the city had not paid its bills and withholding taxes in a timely manner. The city had not paid New Madrid County since 1988 for their share of election costs and printing the city's tax statements. This bill totals \$5,064 and the city is currently making monthly payments to the county. In addition, the city was assessed and paid penalties and interest on delinquent withholding taxes totaling \$7,167 during 1997 and 1998.

Records accounting for the amounts billed to and paid by water, sewer and trash customers were inadequate. The former City Clerk's utility accounts receivable records prior to September 1998 were not complete. Some customers were omitted from the records and payments made by customers were not consistently recorded on the receivable records. As a result, it is not clear if many of the customers paid their utility bills.

Budgets and financial statements were not properly prepared and used by the Board of Aldermen to aid in managing the city finances. In addition, the balance in the city's bank accounts was not adequately monitored resulting in unnecessary overdraft and maintenance charges totaling \$992 during 1998 and 1997.

Voters approved a one cent general sales tax in 1988, but because city officials failed to provide the Missouri Department of Revenue with the election results, the sales tax was never implemented. As a result, the city has lost significant amounts over the last eleven years.

Water, sewer, and trash revenues have not been restricted for the purpose of providing the related services.

Ordinances have not been adopted to establish the compensation and duties of the city's elected officials and the City Clerk. The former City Clerk received three extra weekly checks totaling \$651 that were not included in the payroll register.

The City Collector does not prepare annual reports of tax collections and delinquent taxes, and penalties are not correctly assessed on delinquent taxes.

YELLOW SHEET

The city does not have a formal bid policy, documentation to support disbursements was not always retained, the board does not document its review and approval of expenditures, and invoices are not always marked paid after payment is made. Cash bonuses totaling \$1,100 were paid to city employees and elected officials during 1998.

The City Clerk also serves as the City Treasurer and the City Collector contrary to an Attorney General Opinion.

Budgets do not meet statutory requirements. The city does not publish financial statements, submit annual financial reports to the State Auditor's office, or obtain annual audits.

Minutes of board meetings were not prepared prior to September 1998, and minutes prepared after this date were not signed. Notices of meetings were not posted. The city's ordinances are not complete and up-to-date, and the city does not have a policy regarding public access to city records.

CITY OF MATTHEWS, MISSOURI

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CLAIRE C. McCASKILL
Missouri State Auditor

To the Honorable Mayor
and
Members of the Board of Aldermen
City of Matthews
Matthews, Missouri 63867

The State Auditor was petitioned under Section 29.230, RSMo, to audit the city of Matthews, Missouri. Our audit of the city included, but was not limited to, the year ended December 31, 1998. The objectives of this audit were to:

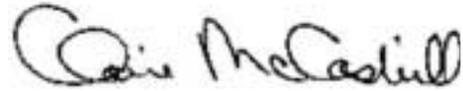
1. Perform procedures we deemed necessary to evaluate the petitioners' concerns.
2. Review compliance with certain constitutional provisions, statutes, ordinances, and attorney general's opinions as we deemed necessary or appropriate in the circumstances.
3. Review certain management practices which we believe could be improved.

Our audit was made in accordance with generally accepted government auditing standards and included such procedures as we considered necessary in the circumstances. We also reviewed board minutes, city policies and ordinances, and various city financial records.

Our audit was limited to the specific matters described above and was based on the selective tests and procedures considered appropriate in the circumstances. Had we performed additional procedures, other information might have come to our attention which would have been included in this report.

The accompanying History and Organization is presented for informational purposes. This information was obtained from the city and was not subjected to the auditing procedures applied in the audit of the city.

The accompanying Management Advisory Report presents our findings and recommendations arising from our audit of the city of Matthews, Missouri.

A handwritten signature in black ink that reads "Claire McCaskill". The signature is written in a cursive style with a large initial "C".

Claire McCaskill
State Auditor

May 27, 1999 (fieldwork completion date)

HISTORY AND ORGANIZATION

CITY OF MATTHEWS, MISSOURI
HISTORY AND ORGANIZATION

The City of Matthews is located in New Madrid County. The city was incorporated in 1943 as a fourth-class city. The population of the city in 1990 was 614. The city government consists of a mayor and four-member Board of Aldermen. The four board members are elected for two-year terms. The mayor is elected for two years, presides over the Board of Aldermen, and votes only in case of a tie. The Mayor, Board of Aldermen, and other principal officials at December 31, 1998, were:

| <u>Elected Officials</u> | <u>Term Expires</u> | Actual Compensation for the Year Ended <u>December 31, 1998</u> | <u>Amount Of Bond</u> |
|--------------------------------------|---------------------|--|---------------------------|
| Fred Daniels, Mayor (1) | April, 1999 | \$ 100 | \$ 0 |
| Keith Duke, Alderman (2) | April, 1999 | 25 | 0 |
| Danny Parker, Alderman 0 | April, 2000 | 25 | |
| Vacant, Alderman (3) | April, 1999 | 0 | 0 |
| John Gardner, Alderman (4) | April, 2000 | 25 | 0 |
| <u>Other Principal Officials</u> | | | |
| Paula Garland, City Clerk (5) | | 4,950 \$ | 15,000 |
| James Cooksey, Jr., City Marshal | | 2,860 | 0 |
| Bill Boyd, Municipal Judge | | 200 | 0 |
| Lewis Recker, City Attorney | | 1,200 | 0 |

In addition, the city has three full-time employees.

- (1) Appointed to replace Thomas R. (Bud) Armstrong who resigned in November 1997. Mr. Daniels was replaced by Gene Curtis who was elected in April 1999.
- (2) Re-elected in April 1999.
- (3) Thomas Gantner was appointed January 1999 to replace Paula Garland who resigned in September 1998. Mr. Gantner was replaced by Clyde Conley who was elected in April 1999.
- (4) Farrell Thompson served as Alderman prior to April 1998.
- (5) Appointed to replace Lois Andrew who resigned in September 1998.

Assessed valuation and tax rate information for 1998 is as follows:

ASSESSED VALUATION

| | |
|----------------------|---------------------|
| Real Estate | \$ 1,782,470 |
| Personal Property | 1,015,770 |
| Railroad and Utility | <u>542,456</u> |
| Total | \$ <u>3,340,696</u> |

TAX RATES PER \$100 ASSESSED VALUATION

| | |
|---------|---------|
| General | \$ 0.55 |
|---------|---------|

A summary of the financial activity of the city of Matthews for the year ended December 31, 1998 is presented on the next page.

Year Ended December 31, 1998

| | General Fund | Water & Sewer Fund | Street Fund | Rural Development Fund | Court Fund | Other * Funds | Total |
|---|------------------|--------------------------|----------------|------------------------------|---------------|------------------|----------------|
| RECEIPTS | | | | | | | |
| Property taxes | \$ 14,437 | 0 | 0 | 0 | 0 | 0 | 14,437 |
| Intergovernmental revenues | 3,833 | 0 | 31,229 | 0 | 0 | 0 | 35,062 |
| Interest | 1,759 | 195 | 126 | 0 | 0 | 696 | 2,776 |
| Water, sewer, and trash fees | 41,935 | 87,431 | 0 | 0 | 0 | 0 | 129,366 |
| Bond proceeds | 0 | 0 | 0 | 350,382 | 0 | 8,220 | 358,602 |
| Grant proceeds | 0 | 0 | 0 | 155,498 | 0 | 0 | 155,498 |
| Franchise taxes | 31,395 | 0 | 0 | 0 | 0 | 0 | 31,395 |
| Fines and court costs | 250 | 0 | 0 | 0 | 10,984 | 0 | 11,234 |
| Donations | 0 | 0 | 0 | 0 | 0 | 210 | 210 |
| Other | 8,482 | 0 | 0 | 0 | 0 | 0 | 8,482 |
| Transfers in | 21,284 | 2,000 | 0 | 0 | 0 | 0 | 23,284 |
| Total Receipts | <u>123,375</u> | <u>89,626</u> | <u>31,355</u> | <u>505,880</u> | <u>10,984</u> | <u>9,126</u> | <u>770,346</u> |
| DISBURSEMENTS | | | | | | | |
| Salaries | 33,470 | 25,610 | 3,056 | 0 | 0 | 0 | 62,136 |
| Fringe benefits | 9,183 | 5,473 | 4,328 | 0 | 0 | 0 | 18,984 |
| Delinquent taxes, interest, and penalties | 5,205 | 2,893 | 20,881 | 0 | 0 | 0 | 28,979 |
| Water/sewer supplies | 4,401 | 15,267 | 0 | 0 | 0 | 0 | 19,668 |
| Street supplies | 0 | 0 | 532 | 0 | 0 | 0 | 532 |
| Repairs and maintenance | 0 | 0 | 1,789 | 0 | 0 | 0 | 1,789 |
| Insurance | 7,110 | 4,108 | 4,428 | 0 | 0 | 0 | 15,646 |
| Trash service | 18,685 | 0 | 0 | 0 | 0 | 0 | 18,685 |
| City Hall building | 3,111 | 0 | 0 | 0 | 0 | 0 | 3,111 |
| Water/Sewer project | 0 | 0 | 0 | 516,323 | 0 | 0 | 516,323 |
| Utilities | 13,582 | 14,449 | 6,498 | 0 | 0 | 0 | 34,529 |
| Attorney services | 1,500 | 0 | 0 | 0 | 0 | 0 | 1,500 |
| Loan/Bond payment | 7,857 | 11,508 | 2,475 | 0 | 0 | 0 | 21,840 |
| Municipal Court | 900 | 0 | 0 | 0 | 6,896 | 0 | 7,796 |
| Bank Charges | 67 | 399 | 59 | 7 | 0 | 0 | 532 |
| Other | 15,648 | 4,872 | 2,389 | 0 | 0 | 8,737 | 31,646 |
| Transfers out | 2,000 | 11,284 | 0 | 0 | 0 | 10,000 | 23,284 |
| Total Disbursements | <u>122,719</u> | <u>95,863</u> | <u>46,435</u> | <u>516,330</u> | <u>6,896</u> | <u>18,737</u> | <u>806,980</u> |
| RECEIPTS OVER (UNDER) DISBURSEMENTS | 656 | -6,237 | -15,080 | -10,450 | 4,088 | -9,611 | -36,634 |
| CASH, JANUARY 1, | 33,273 | 20,491 | 17,367 | 13,960 | 3,838 | 24,379 | 113,308 |
| CASH, DECEMBER 31, | <u>\$ 33,929</u> | <u>14,254</u> | <u>2,287</u> | <u>3,510</u> | <u>7,926</u> | <u>14,768</u> | <u>76,674</u> |

MANAGEMENT ADVISORY REPORT

CITY OF MATTHEWS, MISSOURI
SUMMARY OF FINDINGS

1. Financial Oversight and Monitoring (pages 10-11)

During 1998, the Board of Aldermen became aware of serious financial problems such as untimely deposits of federal and state withholding tax, untimely payments to vendors, inadequate records of water, sewer, and trash payments, and inadequate budget and financial statements. In addition, the city lost significant revenue by not properly implementing a one cent general sales tax that voters approved back in 1988.

2. Expenditures (pages 11-13)

The city does not have a formal bid policy, documentation to support disbursements was not always retained, the board does not review and approval all expenditures, and invoices are not always marked paid after payment is made. Cash bonuses totaling \$1,100 were paid to city employees and elected officials during the two years ended 1998. The city does not maintain a written agreement for services rendered or obtained.

3. Restricted Revenues (pages 14-15)

The city does not ensure restricted revenues are spent only for allowable purposes. The city has not properly funded various reserve and replacement accounts as required by its revenue bond covenants. Water meter deposits are not separately identified in the general fund and are used for operating expenses.

4. City Utilities (pages 16-17)

Utility accounts receivables are not balanced with billings and collections on a monthly basis. The city has not performed periodic formal reviews of the water or sewer rates. The city does not reconcile the total gallons of water billed to customers to the gallons of water pumped.

5. Accounting Records and Procedures (pages 17-19)

The City Clerk also serves as the City Treasurer and the City Collector contrary to an Attorney General Opinion. Controls over cash receipts are not adequate and several weaknesses were noted in cash disbursement records and procedures.

6. Budgets and Financial Reporting (pages 19-20)

Budgets do not meet statutory requirements. The city does not publish financial statements, submit annual financial reports to the State Auditor's office, or obtain annual audits.

7. Board Meetings, Minutes, and Ordinances (pages 20-21)

Minutes of board meetings were not prepared prior to September 1998, and minutes prepared after this date were not signed. Notices of meetings are not posted. The city's ordinances are not complete and up-to-date, and the city does not have a policy regarding public access to city records.

8. Payroll and Personnel Procedures (pages 21-23)

Ordinances have not been adopted to establish the compensation and duties of the city's elected officials and the City Clerk. The former City Clerk received three extra weekly checks totaling \$651 that were not included in the payroll register. No records are maintained of vacation and sick leave earned and taken, the city does not have a personnel policy, and employees do not prepare time sheets.

9. Property Tax Procedures (page 23)

The City Collector does not prepare annual reports of tax collections and delinquent taxes, and penalties are not correctly assessed on delinquent taxes.

10. City Property (page 24)

The city does not prepare and maintain permanent, detailed property records for city assets.

11. Municipal Division (pages 24-27)

Municipal division duties are not adequately segregated. Receipt slips are not issued for all monies received, the method of payment is not always indicated on receipt slips, and bank reconciliations are not performed. Account receivable records are not adequately maintained. Records accounting for bond monies are not adequately maintained. Police officers collect fines, costs, and bonds, but are not bonded. The numerical sequence and ultimate disposition of all traffic tickets is not accounted for. Prior to September 1998 court dockets were not prepared for all cases. The court does not file a monthly report of all cases heard with the city, and does not remit fines and costs to the city monthly. Records of convictions are not forwarded to the Missouri State Highway Patrol as required.

CITY OF MATTHEWS, MISSOURI
MANAGEMENT ADVISORY REPORT

1. Financial Oversight and Monitoring

During 1998, the Board of Aldermen became aware of serious financial problems facing the city. These included:

- A. The city had not paid its bills and remitted tax withholdings in a timely manner and as a result, incurred numerous and unnecessary interest and penalties. The city failed to file federal and state payroll tax returns and make the required payroll tax deposits timely for the years 1994 through 1998. As a result, the city was assessed and paid penalties and interest on delinquent taxes totaling \$7,167 during 1997 and 1998.
- B. Instances were noted where a vendor had turned the city's account over to a collection agency to obtain payment. For several years many of the city's vendors had not been paid in a timely manner. As of September 1998, delinquent invoices totaled \$24,552. In 1997 and 1998 the city failed to pay their insurance premiums in a timely manner, and was assessed and paid late charges totaling \$473.

The city has not paid New Madrid County since 1988 for their share of election costs and printing the city's tax statements. This bill totals \$5,064 and the city is currently making monthly payments to the county. The city has also not paid the Department of Natural Resources (DNR) since 1992 for the primacy fee collected from utility customers. In November 1998, DNR estimated the total amount owed by the city to be \$3,352; however, DNR waived delinquent amounts upon payment of \$559 owed for 1998.

- C. Records accounting for the amounts billed to and paid by water, sewer and trash customers were inadequate. The former City Clerk's utility accounts receivable records prior to September 1998 were not complete. Some customers were omitted from the records and payments made by customers were not consistently posted to the receivable records. As a result, it is not clear whether or not many of the customers have paid their utility bills. Additional improvement related to the reconciliation of utility accounts is needed. See MAR No. 4.

According to the city's utility bills, service will be discontinued if payment is not received by the 15th of the month; however, the city's utility employees indicated that prior to 1999 they had not disconnected any customer's service for failure to pay. In addition, the Board of Aldermen does not periodically review delinquent accounts to ensure appropriate follow up action is performed.

- D. Budgets and financial statements were not properly prepared and used by the Board of Aldermen to aid in managing city finances. See MAR No. 5. In addition, the balance in the city's bank accounts was not adequately monitored resulting in unnecessary overdraft and maintenance charges totaling \$992 during 1998 and 1997. Additional improvements related to the reconciliation and consolidation of bank accounts are needed. See MAR No. 5.

- E. Voters approved a one cent general sales tax in 1988, but because city officials failed to provide the Missouri Department of Revenue with the election results, the sales tax was never implemented. As a result, the city has lost significant amounts of revenue over the last eleven years. The city has recently provided the necessary information to the Missouri Department of Revenue and will begin receiving sales tax revenue in late 1999.
- F. Water, sewer, and trash revenues have not been restricted for the purpose of providing the related services. In addition, the city has not established all the funds required by its three revenue bond ordinances and currently does not have adequate cash available to meet the reserve requirements. Also, motor vehicle-related receipts were not properly restricted to street-related purposes as required by state law. See MAR No. 3.

Basic internal control and record keeping procedures were not in place. These weaknesses resulted in or contributed to the problems noted above. These weaknesses included the lack of bank reconciliations, minutes not prepared and/or retained, the absence of adequate financial reports and budgets, lack of any reconciliations over utility billings, payments, and accounts receivable, duties not being adequately segregated, numerous invoices, billing stubs and other supporting documentation not being retained, annual audits required by state law not being performed, and a serious lack of oversight by the Board of Aldermen. The board has made significant improvement in many of these areas since they became aware of these problems in 1998. However, additional improvement is necessary as we discuss in the remainder of this report.

The Board of Aldermen needs to establish a plan to properly fund revenue bond reserve accounts and prepare a budget which reflects this plan. In addition, the board needs to ensure an effective system of accounting and administrative controls are in place, including an effective financial reporting system and procedures to monitor budgeted and actual activity. The recommendations contained in the remaining MARs, if implemented will help establish these controls and procedures.

WE RECOMMEND the Board of Aldermen review the current financial situation of the city's funds, ensure financial records are adequately maintained in the future, and adequate controls and procedures are in place.

AUDITEE'S RESPONSE

We have reviewed the current financial situation and the board has taken steps to ensure adequate procedures are in place, or will be put in place.

| | |
|-----------|---------------------|
| 2. | Expenditures |
|-----------|---------------------|

- A. The city does not have a formal bidding policy. As a result, the decision of whether to solicit bids for a particular purchase is made on an item-by-item basis. During the past several years, bids were either not solicited or bid documentation was not retained for some purchases including \$12,308 for insurance, \$2,500 for chemicals, and \$845 for a copier.

Formal bidding procedures provide a framework for the economical management of city resources and help ensure the city receives fair value by contracting with the lowest and best bidders. Competitive bidding also helps ensure all parties are given an equal

opportunity to participate in the city's business. Bids can be handled by telephone quotation, by written quotation, by sealed bid, or by advertised sealed bid. Various approaches are appropriate, based on dollar amount and type of purchase. Whichever approach is used, complete documentation should be maintained of all bids received and reasons noted why the bid was selected.

B. The following weaknesses were noted regarding the city's procedures for the payment of bills:

1) Documentation to support various disbursements made by the city during the two years ended December 31, 1998, could not be located. No invoice or other documentation to support the payment could be found by the city for 37 of 50 expenditures selected. All disbursements should be supported by paid receipts and/or complete vendor-provided invoices to ensure the obligation was actually incurred and the disbursement represents an appropriate use of public funds.

2) The board does not adequately document its review and approval of expenditures made by the city. Board meeting minutes prepared after September 1998 occasionally document the board's approval to purchase a specific item, but invoices are not signed or initialed by the board and a supplementary listing of all disbursements approved for payment by the board is not prepared to accompany the minutes.

To adequately document the board's review and approval of all disbursements, a complete and detailed listing of bills should be prepared, signed or initialed by the board to denote its approval, and retained with the official minutes.

3) Invoices are not always marked paid or otherwise canceled upon payment. Canceling invoices and all other supporting documentation reduces the likelihood of duplicate payments.

C. During 1998 and 1997, all city employees and elected officials received Christmas bonuses ranging from \$25 to \$100 each. The cost of the bonuses totaled \$1,100 for the two years ended December 31, 1998. In addition, the city spent \$916 in 1998 and 1997 for turkeys and hams given to employees and elected officials during Thanksgiving and Christmas.

Bonuses given to employees appear to represent additional compensation for services previously rendered and, as such, are in violation of Article III, Section 39 of the Missouri Constitution and contrary to Attorney General's Opinion No. 72, 1955 to Pray, which states, "... a government agency deriving its power and authority from the constitution and laws of the state would be prohibited from granting extra compensation in the form of bonuses to public officers after the service has been rendered."

D. The city does not always enter into written contracts for services rendered or obtained. The city has an oral agreement with the cemetery board for the city to maintain the grounds of the cemetery for \$100 per month. In addition, the city schedules all burials and uses the city backhoe to open and close graves for \$250 per burial.

The city does not have a written agreement with the local volunteer fire department for the use of the city's fire truck and fire station, or with its depository bank or the City Attorney.

Section 432.070, RSMo 1994, requires contracts of political subdivisions be in writing. The city should enter into written contracts for services rendered or obtained. A written contract, signed by the parties involved, should specify the services to be rendered and the manner and amount of compensation to be paid. Written contracts are necessary to ensure all parties are aware of their duties and responsibilities and to provide protection to both parties.

WE RECOMMEND the Board of Aldermen:

- A. Establish formal bidding policies and procedures, including documentation requirements regarding the bids or quotes received and justification for the bid selected.
- B.1. Ensure all disbursements are supported by paid receipts and/or vendor-provided invoices and other supporting documentation.
 - 2. Ensure the approval of all disbursements is adequately documented by including a listing of all approved disbursements in the board minutes.
 - 3. Ensure all invoices or other supporting documentation are marked paid once payment is made.
- C. Discontinue paying Christmas bonuses and purchasing gifts for city officials and employees.
- D. Ensure the city enters into formal written contracts for services rendered or obtained.

AUDITEE'S RESPONSE

A,B.2,
& D. *We will implement these recommendations.*

B.1.
&B.3. *These have been implemented.*

C. *We will take this recommendation under advisement.*

3.

Restricted Revenues

- A. The city does not ensure restricted revenues are spent only for allowable purposes. The following items were noted relating to the city's restricted revenues:
 - . The city pays wage and fringe benefit expenses from the water, sewer, general, and street funds. However, these expenses are not consistently allocated and no documentation is available to support the method of allocation used. The former City Clerk indicated that she attempted to pay wages and fringe benefits from the

fund where the related work was performed. However, time sheets or related documentation is not maintained to separately indicate the number of hours related to streets, water and sewer, or other activities.

- In February 1998 the Internal Revenue Service levied \$18,535 from the city's street fund bank account for unpaid payroll taxes, interest, and penalties. In addition, the city paid \$6,674 to the State of Missouri and the IRS for unpaid payroll taxes and interest in October and November 1998. The city has not performed any calculations to determine what portion of these taxes should be repaid to the street fund from the city's general, water, and sewer funds. Article IV, Section 30, of the Missouri Constitution, requires that motor vehicle-related receipts apportioned by the state of Missouri be used for street-related purposes, including policing, signing, lighting, and cleaning of roads and streets.
- In September 1998 the current City Clerk began depositing all water, sewer, and trash fees into the general fund and paying all city expenses from this fund. The water, sewer, and trash fees are user charges which are designed to cover the costs of providing these services. Without ensuring these monies are spent only as required and allocating all appropriate costs to these funds, the city can have no assurance that rates are sufficient to cover operating costs and provide a sufficient reserve for unforeseen expenditures. In addition, provisions in the city's bond covenants require all income from the sewerage and water works systems to be paid into the Water and Sewer Funds.
- Law enforcement training fees received by the traffic violations bureau are not separately accounted for. These fees are legally restricted for the training of police officers.

It is essential that the city separately account for the various revenue sources and properly allocate expenses to the various funds. Allocation of expenses is necessary for the city to ensure the water and sewer rates are sufficient to cover the cost of providing the service without generating profits to subsidize other city services. Furthermore, the uses of certain funds, such as state motor vehicle-related revenues, are limited by state law for specified purposes. Therefore, documentation and proper allocation of expenses is useful for both management and compliance purposes.

Because the city has not properly accounted for the various revenue sources and has not properly allocated expenses to the various funds, it is likely current balances maintained in various city funds are not correct. The board should determine if appropriate adjustments can be determined.

- B. The city issued revenue bonds in 1971, 1978, and again in 1997 for water and/or sewer improvements. The revenue bond ordinances require the city to establish several separate accounts and to fund these accounts with transfers from the water and/or sewer operating revenues. As of December 31, 1998, the city had not transferred the required amounts to some reserve accounts. The balances of the Depreciation and Replacement Accounts and Bond Reserve Accounts were inadequate by \$13,500 and \$12,058, respectively, as of December 31, 1998.

The failure of the city to establish and adequately maintain the required reserve accounts could allow the bondholders to take legal action to force compliance or immediate payment of all outstanding bonds. It appears the city does not have sufficient cash available in the water and sewer funds to meet and fund the required reserve accounts. The Board of Aldermen needs to establish a plan to fund the accounts required by the city's revenue bonds.

- C. City residents are required to pay a meter deposit before receiving water services. Currently, the city collects a \$50 deposit; however, a \$25 deposit was required prior to February 1999. A separate receipt book is maintained to record the meter deposits. A partial list of customer deposits received by the city since 1989 totals \$2,250. However, meter deposit funds have not been segregated within the General Fund and were used for operating expenses.

The city needs to identify all customer deposits that should currently be held by the city and keep the listing properly updated. Meter deposits received by the city should be held in trust and not used for operating expenses. The listing of meter deposits should be reconciled to the meter deposits in the account monthly to ensure that sufficient funds are available for the payment of all liabilities.

WE RECOMMEND the Board of Aldermen:

- A. Establish funds to properly account for restricted revenues and ensure all costs paid from the funds are appropriate and reasonably allocated. The board should review the current balances and make other corrections as necessary.
- B. Establish a plan to fund the accounts required by the city's revenue bonds.
- C. Ensure the city maintains a complete listing of meter deposits and periodically reconciles the listing to monies held by the city.

AUDITEE'S RESPONSE

We are aware of these problems and will take steps to address these recommendations in the future.

| |
|--------------------------|
| 4. City Utilities |
|--------------------------|

The city provides water, sewer and trash services to approximately 275 customers. Water meters are read around the twentieth of the month and customers are billed on the last day of the month. Payments are due by the tenth of the month. Our review of these billing practices and related procedures identified the following concerns:

- A. The city has not performed periodic formal reviews of the water or sewer rates. City ordinance requires the water and sewer rates to be set at an amount adequate to generate revenues to cover the costs of operation, maintenance, and replacement of the system; however, there is no documentation to indicate that the city periodically reviews water or sewer rates to ensure these costs are adequately covered.

In April 1997 the board approved an increase on **water** rates, but the increased rates were not billed until September 1998 when the city employed a new City Clerk. The current **sewer** rates were originally established by ordinance in December 1984. These same rates were set again by ordinance in May of 1999 because the city could not locate the ordinance from December 1984. The Board of Aldermen have not performed any calculation in recent years to determine the adequacy of the water or sewer rates. Section 67.042, RSMo 1994, provides that fees may be increased if supported by a statement of the costs necessary to maintain the funding of such service. However, the board did not prepare a statement of costs to maintain the water system as required when increasing the rates in April 1997.

Water and sewer fees are user charges which should cover the cost of providing the related services. The city should perform periodic detailed reviews of the costs of providing these services and set rates appropriately. Preparation of a statement of costs would allow the city to determine the rates necessary to support current and future operations as well as providing documentation to customers of the rationale behind the rates.

- B. The current City Clerk records all customer account activity on computer and maintains a record of customer payments; however, month-end utility accounts receivable balances are not reconciled to the beginning accounts receivable balance, billings, collections and other adjustments for that month. The lack of reconciliations represents a weakness in the internal controls of the water and sewer billing and collection system. Reconciliations are needed to help ensure the accuracy of the billing, collection and reconciliation processes.
- C. The city does not reconcile the total gallons of water billed to customers to the gallons of water pumped. To help detect any significant water loss on a timely basis and to help ensure all water usage is properly charged, the city should monthly prepare and maintain records of the total gallons of water pumped and reconcile them to the gallons of water charged. Significant differences should be investigated.

WE RECOMMEND: the Board of Aldermen:

- A. Perform periodic reviews of the costs to maintain utility services, and establish rates to ensure the costs of operation, maintenance, and replacement of the city's water and sewer system are covered.
- B. Ensure the City Clerk reconciles beginning and ending accounts receivable balances on a monthly basis using the billing, collections and billing adjustments during that month. Any differences which cannot be accounted for should be immediately investigated.
- C. Compare the gallons of water pumped to the gallons billed on a monthly basis. Any differences should be investigated.

AUDITEE'S RESPONSE

We will implement these recommendations as soon as possible.

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| 5. Accounting Records and Procedures |
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- A. The board has not appointed individuals to serve as City Treasurer or City Collector. The City Clerk is currently serving as the City Treasurer and City Collector. She collects all receipts, maintains receipt and disbursement records, makes bank deposits, signs checks, and serves as secretary to the board. Neither the board nor other personnel independent of the cash custody and record-keeping functions provide adequate supervision or review of the work performed by the City Clerk.

Attorney General's Opinion No. 24, 1955 to Dodds, concluded that in a fourth-class city the holding of the positions of City Clerk, City Treasurer, and City Collector, or any two of these three offices, by the same person at the same time would be incompatible. One person holding all of these offices does not allow the separation of duties necessary for a proper evaluation and review of financial transactions. The current procedures jeopardize the system of independent checks and balances intended by state law.

- B. Receipts are not deposited, intact on a timely basis. Deposits are only made approximately weekly. Varying amounts of cash are withheld from deposits to use as a change fund. To adequately safeguard receipts and reduce the risk of loss, or misuse of funds, deposits should be made on a daily basis or when accumulated receipts exceed \$100.

To ensure all receipts are deposited intact, a change fund should be set at a constant amount.

In addition, a detailed record of monies received by day (with details such as date of payment, method of payment, payor, amount, and type of receipt) is not maintained and reconciled to monies deposited. A detailed record of monies received is necessary to ensure all receipts are accounted for properly and deposited.

- C.1. Checks for several of the city's bank accounts are not prenumbered. In addition, prenumbered checks for the other bank accounts were sometimes not issued in numerical sequence. To ensure all checks are properly accounted for and to reduce the risk of unauthorized expenditures, checks should be prenumbered with the numerical sequence accounted for.
2. Voided checks were not always retained. To ensure all checks are properly accounted for, all voided checks should be properly defaced and retained.
3. The City Clerk, Mayor and one board member can sign checks. The city's printed checks have only one signature line, however city policy requires two individuals to sign all checks issued. However, numerous checks were only signed by City Clerk Andrew. In addition, some checks were signed in advance by a board member. Signing checks in advance does not allow for proper review of the documentation to support the disbursement and diminishes the control intended by dual signatures. Also, the City Clerk is bonded but the Mayor and the board member are not bonded.

- D. The current City Clerk maintains a balance for each account, but does not always perform and/or document a formal bank reconciliation. Monthly bank reconciliations are necessary to ensure that accounting records are in agreement with the bank and errors are detected

on a timely basis. Without proper documentation, there is little assurance that these reconciliations have been performed.

- E. At December 31, 1998, the city had 11 checking and savings accounts and 3 certificates of deposit. Maintaining numerous bank accounts unnecessarily complicates bookkeeping functions and increases the risk that errors will occur and not be detected.

WE RECOMMEND the Board of Aldermen:

- A. Ensure the receiving and disbursement functions are adequately segregated. At a minimum, there should be a documented supervisory review of the bank reconciliation and review and approval of expenditures.
- B. Ensure monies are deposited intact, daily or when accumulated receipts exceed \$100. Detailed receipt records should be maintained and reconciled to bank deposits.
- C.1. Ensure all checks are prenumbered, and issued in numerical sequence.
 - 2. Ensure all voided checks are defaced and retained.
 - 3. Require dual signatures on checks, discontinue the practice of signing checks in advance, and obtain bond coverage for the Mayor and any board members authorized to sign checks.
- D. Ensure monthly bank reconciliations are performed and documented.
- E. Consider consolidating monies into fewer bank accounts.

AUDITEE'S RESPONSE

A&E. We will take these recommendations under advisement.

B-D. We have implemented these recommendations.

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| 6. Budgets and Financial Reporting |
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- A. The budgets prepared by the city for the years ended December 31, 1998 and 1997, did not comply with Chapter 67 of the Missouri statutes (the budget law). In addition, the city only prepared a budget for the water and sewer funds in 1999. None of these budgets included projected ending balances, actual (or estimated for years not yet ended) revenues and expenditures for the two preceding budget years, or a budget message. In addition, the city prepared one budget for all funds rather than preparing a budget for each fund separately. To better inform citizens and to ensure the city's budgets reflect the restrictions placed on the city funds, the city should prepare separate budgets for each fund.

Sections 67.010 to 67.040, RSMo 1994, set specific guidelines as to the format and approval of the annual operating budget. A complete and well-planned budget, in addition to meeting statutory requirements, can serve as a useful management tool by establishing

specific cost and revenue expectations for each area of city operations and provide a means to effectively monitor actual costs and revenues.

- B. The city has not published semi-annual financial statements as required by state law. Section 79.160, RSMo 1994, requires the Board of Aldermen to prepare and publish semi-annual financial statements. In addition, Section 79.165, RSMo 1994, states the city cannot legally disburse funds until the financial statement is published.
- C. The city does not submit annual financial reports to the State Auditor's Office. Section 105.145, RSMo 1994, requires political subdivisions to file an annual report of the financial transactions of the political subdivision with the State Auditor's Office.
- D. The city has not obtained annual audits of the combined waterworks and sewer system. Both the city's bond ordinances, and Section 250.150, RSMo 1994, require the city to obtain an annual audit of the combined waterworks and sewer system, and the cost of the audit is to be paid from the revenues received from the system.

In addition to being required by state law, an annual audit of city funds would help ensure city financial transactions have been properly recorded.

WE RECOMMEND the Board of Aldermen:

- A. Prepare annual budgets in compliance with state law, make periodic comparisons between budgeted and actual expenditures, and prepare a separate budget for each fund.
- B. Require semi-annual financial statements be prepared and published.
- C. Submit annual reports of financial transactions to the State Auditor's Office as required by state law.
- D. Obtain annual audits of city financial records.

AUDITEE'S RESPONSE

We will implement these recommendations.

7.

Board Meetings, Minutes, and Ordinances

- A. Board meeting minutes were not prepared prior to September 1998. Minutes of board meetings should be prepared reflecting such public decisions as bidding, contracting, and other significant matters. For instance, documentation of the reason the sales tax approved by voters in 1988 was never initiated may have been known if minutes had been maintained.

In addition, board minutes prepared after September 1998 were not signed. The board minutes should be signed by the City Clerk as preparer and by the Mayor to provide an independent attestation that the minutes are a correct record of the matters discussed and actions taken during the board's meetings.

Section 610.020, RSMo, 1994, requires minutes of meetings to be taken by the public governmental body. Besides being required by statute, minutes of meetings provide an official record of board actions and decisions.

- B. Notices of the regular monthly board meetings were not posted as required by law. Section 610.020, RSMo 1994, requires all public governmental bodies to give advance notice of their meetings. The notice is to include the time, date, and place of the meeting, as well as the tentative agenda, and should be given in a reasonable manner. This section of law describes a reasonable notice as making available copies of the notice to any representative of the news media, and the posting of such notice at the building in which the meeting is to be held. The board began posting notices of meetings in May of 1999.
- C. The city's ordinances are not complete and up-to-date. It appears some of the city's ordinances are missing while others are old and outdated. In addition, as noted in other parts of this report, ordinances have not been adopted in some instances where required. For example, the city has not adopted ordinances to establish the compensation and duties of city officials or to establish the annual property tax rates as required by law.

Since ordinances represent legislation which has been passed by the Board of Aldermen to govern the city and its residents, it is important that the ordinances be maintained in a complete and up-to-date manner.

- D. The city does not have a formal policy regarding public access to city records. A formal policy regarding access to and obtaining copies of city records would establish guidelines for the city to make the records available to the public. This policy should establish a person to contact and an address to mail such requests, and should establish a cost for providing copies of public records.

Section 610.023, RSMo 1994, lists requirements for making city records available to the public. Section 619.026, RSMo 1994, allows the city to charge fees for copying public records, but the fees shall not exceed the city's actual cost of document search and duplication.

WE RECOMMEND the Board of Aldermen:

- A. Ensure minutes are prepared, approved and maintained for all meetings. In addition, minutes should be signed by the Mayor and the City Clerk to attest to their completeness and accuracy.
- B. Ensure notices of meetings, including an agenda, continue to be posted as required by law for each meeting of the Board of Aldermen.
- C. Ensure a complete and up-to-date set of ordinances is maintained. This would include passing new ordinances where appropriate and required.
- D. Establish a formal written policy and procedures regarding public access to city records.

AUDITEE'S RESPONSE

A,C,

& D. These recommendations will be implemented.

B. This recommendation has been implemented.

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| 8. Payroll and Personnel Procedures |
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- A. The city has not adopted ordinances to establish the compensation and duties of the city's elected officials and the City Clerk. Sections 79.270 and 79.290, RSMo 1994, require the compensation and duties of city officials and employees to be set by ordinance.
- B. The former City Clerk was paid a weekly salary during 1997 and 1998. During our review of the weekly checks issued to the former City Clerk we noted three additional payments totaling \$651 that were not included in the payroll register and were not included on the City Clerk's W-2 form. The three payments were made in October and December 1997 and January 1998. The former City Clerk has indicated that these payments represent commissions on city taxes and that this arrangement was agreed upon prior to her employment; however, there is no documentation to support that explanation, or to show how they were computed. Since employee compensation has not been established by ordinance, it is unclear if the former City Clerk was to receive commissions on city taxes. In addition, since the city did not maintain board minutes prior to September 1998 it is unclear if these payments were approved by the board.

These checks were signed by Alderwoman Garland, who indicated that she signed blank checks in advance for the former City Clerk and signed checks without reviewing any supporting documentation. The city's current Mayor indicated that he believed the payments were for commissions on city taxes and were handled similarly in the past.

To help ensure the propriety of all payments, documentation should be maintained to support all payments and all payments should be approved by the board. In addition, if these payments were compensation to the former city clerk they should have been recorded in the payroll register and the appropriate payroll taxes withheld.

- C. No records are maintained of vacation and sick leave earned or taken. The former City Clerk received \$1,155 in September 1998 for 4 weeks of unused vacation leave. Although the Board of Aldermen formally approved payment of the \$1,155 to the former City Clerk, there were no time sheets prepared or leave records maintained to document any vacation leave earned and taken throughout the year. Compensation for leave earned but not used should be specifically addressed in the personnel policy.
- D. The city has four full-time employees and one part-time employee. The city has not established a personnel policy to address issues such as vacation and sick leave, overtime, and other personnel issues.

A written personnel policy for all employees is necessary to ensure proper compensation for leave earned and taken, equitable treatment among employees, and the avoidance of misunderstandings.

- E. City employees do not prepare time sheets. Time sheets are necessary to document hours actually worked, substantiate payroll expenditures, and provide the board with a method to monitor hours worked. To support payroll expenditures the city should require all employees to prepare detailed time sheets which are reviewed and approved by a supervisor.

WE RECOMMEND the Board of Aldermen:

- A. Establish the duties and compensation of all city officials and employees by ordinance as required by statute.
- B. Discuss these additional payments to the former City Clerk and determine what action should be taken. In addition, the board should contact the IRS regarding these payments.
- C. Maintain records of employee leave earned, taken and paid. Compensation for leave earned but not used should be addressed in the personnel policy.
- D. Establish a written personnel policy.
- E. Require city employees to prepare time sheets which are approved by a supervisor.

AUDITEE'S RESPONSE

A, C,
D&E. *We will implement these recommendations.*

B. *We will take this recommendation under advisement.*

9.

Property Tax Procedures

- A. The City Clerk's duties include collecting and depositing property tax receipts. Monthly and annual reports were not prepared by the former City Clerk summarizing the amount of property taxes collected as well as those that remain delinquent. The current City Clerk has prepared a list of delinquent taxes, but the list is not complete and there is no indication in the board minutes that the list was reviewed by the Board of Aldermen.

Sections 79.310, 94.320, and 94.330, RSMo 1994, require reports to be submitted to the board of aldermen indicating the amount of taxes collected and taxes remaining delinquent. The board is to examine and approve the lists and charge the tax collector with the collection of the delinquent taxes. Section 94.330, RSMo 1994, also provides that the board may declare worthless any and all personal delinquent taxes which they may deem uncollectible.

Monthly and annual reports which comply with state law would help provide assurance taxes have been properly collected, written off, or determined to be delinquent.

- B. The former City Clerk did not charge penalties on delinquent taxes. The current City Clerk charges penalties, but the penalties were not computed correctly. The city currently

is charging 11.56 percent each time a delinquent notice is sent. Section 140.100.1, RSMo 1994, currently provides a penalty of two percent per month up to a maximum of 18 percent per year for each delinquent tax bill.

WE RECOMMEND the Board of Aldermen:

- A. Require monthly and annual reports of property taxes collected and delinquent as required by state law.
- B. Ensure the penalty for the collection of delinquent property taxes is charged in accordance with state law.

AUDITEE'S RESPONSE

A&B. We will implement these recommendations.

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| 10. City Property |
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The city has not prepared and maintained permanent, detailed property records for general fixed assets, including the cost of land, buildings, equipment, and furniture owned by the city. In addition, the city has not prepared and maintained permanent, detailed property records for the water and sewer system. Also, annual physical inventories are not performed.

Property records for general fixed assets are necessary to ensure accountability for all items purchased and owned and for determining the proper amount of insurance coverage.

To develop appropriate records and procedures for general fixed assets and the fixed assets of the water and sewer system, the city needs to undertake a comprehensive review of all property owned by the city. Assets should be counted, tagged for specific identification, and recorded by description and serial number in a detailed property ledger at historical cost or estimated historical cost if the original cost is not available. The city should properly record all fixed asset transactions, and ensure the accuracy of the recorded fixed assets. Periodically, the city should take physical counts of its assets and compare to the detailed records.

WE RECOMMEND the Board of Aldermen establish property records for general fixed assets and the fixed assets of the water and sewer system that include all pertinent information for each asset, such as tag number, description, cost, acquisition date, location, and subsequent disposition. In addition, annual physical inventories should be performed.

AUDITEE'S RESPONSE

We have or will implement each of these recommendations.

- A. The duties of receiving, recording, and depositing court receipts are not adequately segregated. Currently, the Court Clerk performs all of these duties. There is no independent reconciliation between receipts and deposits. In addition, there is no supervisory review performed of the Court Clerk's functions by an independent person.

To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurance that all transactions are accounted for and assets are adequately safeguarded. Internal controls could be improved by segregating the duties of receiving and depositing court monies from recording receipts. If proper segregation of duties cannot be achieved, at a minimum, there should be a supervisory review of the reconciliations between receipts and deposits by an independent person.

- B.1. Prenumbered receipt slips are not written for some monies received and the numerical sequence of receipt slips that are written is not accounted for properly. To adequately account for all monies received and to ensure all collections are deposited, prenumbered receipt slips should be issued for all monies received, and the numerical sequence of receipt slips accounted for properly.
2. The court accepts cash, checks, and money orders for the payment of fines, court costs, and bonds. The method of payment is not always indicated on receipt slips. To ensure receipts are deposited intact, the method of payment should be indicated on the receipt slips and the composition of receipt slips issued should be reconciled to the composition of bank deposits.
3. Bank reconciliations are not performed. In addition, the former Court Clerk did not maintain a cash control ledger or any other record of the bank account balance in the accounting records or the checkbook register. A record of the bank account balance and monthly bank reconciliations are necessary to ensure the account is in agreement with the accounting records and to detect errors on a timely basis.
- C. The court allows defendants to make partial payments on fines and court costs. Accounts receivable records are not adequately maintained and signed payment agreements are not required. Without adequate accounts receivable records, the court cannot effectively monitor and collect monies owed to the court.
- D.1. A ledger of all bonds received and disbursed is not maintained. Bond monies are deposited into the court bank account. A bond ledger is necessary to ensure all bonds are recorded and accounted for properly.
2. Monthly listings of open items (liabilities) are not prepared. Monthly listings of open items are necessary to ensure proper accountability over open cases and to ensure monies held in trust are sufficient to meet liabilities.
- E. Police officers collect fines, court costs, and bonds, but are not bonded. Failure to properly bond all persons with access to assets exposes the court and the city to risk of loss.

- F. The court has established a log of tickets issued; however, the log did not account for all traffic tickets assigned and issued, and their ultimate disposition. Without a proper accounting of the numerical sequence and ultimate disposition of traffic tickets, the police department and the municipal division cannot be assured all tickets are submitted to the court for processing.

During the audit, two tickets selected for review could not be located. Since the tickets and supporting documentation could not be reviewed, we could not determine the disposition of these tickets and whether they were properly reflected in the court's records. All municipal court records should be adequately retained in accordance with Supreme Court Administrative Rule 8.

- G. Prior to September 1998, court dockets were not prepared for all cases heard before the Municipal Judge. Also the docket prepared by the current judge does not contain sufficient information on the disposition of all tickets. Section 479.070, RSMo 1994, requires the proceedings for every case be entered on a court docket. To ensure all cases have been accounted for, court dockets listing all cases and the disposition of those cases should be prepared and retained.
- H. The court does not file with the city a monthly report of all cases heard in court. Section 479.080.3, RSMo 1994, requires the Court Clerk to prepare a monthly listing of all cases heard in court, including all fines and court costs collected, to be verified by the Court Clerk or Municipal Judge, and filed with the City Clerk.
- I. The Court Clerk allows costs and fines collected to accumulate in the bank account, and remits lump sum amounts to the city periodically. The balance in the court bank account on December 31, 1998 was \$7,926. Section 479.080, RSMo 1994, requires fines and costs collected be remitted to the city treasury monthly.
- J. The Court Clerk did not forward required records of convictions on traffic offenses to the Missouri State Highway Patrol (MSHP). Section 302.225, RSMo Cumulative Supp. 1999, requires any plea or finding of guilty on traffic violations under the laws of the state, county, or municipal ordinance to be forwarded to the MSHP within ten days of the conviction date.

Similar conditions were noted in the prior audit report of the city of Matthews Municipal Division for the two years ended December 31, 1992. These deficiencies are serious and should be corrected immediately.

WE RECOMMEND the city of Matthews Municipal Division:

- A. Adequately segregate the duties or establish a documented supervisory review of the reconciliation between receipts and deposits by an independent person.
- B.1. Issue prenumbered receipt slips for all monies received and account for the numerical sequence of receipt slips.
 - 2. Indicate the method of payment on each receipt slip issued and reconcile the composition of receipt slips issued to the composition of bank deposits.

3. Maintain a cash control ledger showing receipts, disbursements and balances. The cash control balance should be reconciled to the bank balance monthly.
- C. Maintain adequate accounts receivable records including signed payment agreements and a control ledger. Periodically the control ledger balance should be reconciled to the balances on the individual payment agreements.
- D.1. Maintain a bond ledger to account for bond receipt and disbursements.
 2. Prepare monthly listings of open items (liabilities) and reconcile these listings to the bank account balance.
- E. Request the city obtain adequate bond coverage for all persons handling court monies.
- F. Ensure the ticket log is complete and maintained up-to-date and retain all records as required by Supreme Court Rule 8.
- G. Record all cases on the court docket.
- H. Prepare and file monthly reports of court actions in accordance with state law.
- I. Remit collections of fines and costs to the city treasury monthly as required by state law.
- J. Forward records of convictions on traffic offenses to the MSHP as required by state law. In addition, court files should be reviewed for applicable tickets that should be forwarded to the MSHP.

AUDITEE'S RESPONSE

The Municipal Judge and Court Clerk provided the following responses:

- A. *The Judge is currently looking at receipts each month and initialing them.*
- B.1. *Prenumbered receipts are now being used.*
- B.2. *The method of payment is also now being noted.*
- B.3. *Bank reconciliations are now being done.*
- C. *Currently when partial payments are made, the person signs and dates the agreement.*
- D.1. *The bond ledger is set up to show the amount paid, name, and if refunded, the check number.*
- D.2.
& F. *These are now being done.*
- E. *We need to check on bonding officers.*
- G, H,

& J. These will be done.

I. Money is now transferred to the general account monthly.

This report is intended for the information of the city's management and other applicable government officials. However, this report is a matter of public record and its distribution is not limited.

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